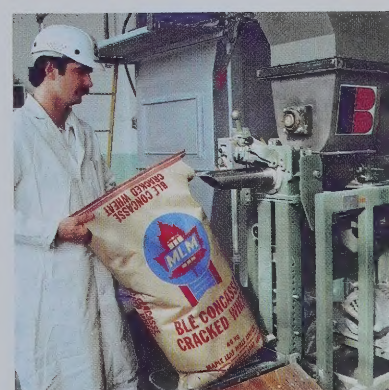
Consumer food products

NORIN

Providing food to millions



Flour milling / Grain

Vegetable oil

Agri products

ANNUAL REPORT 1978

Norin —a profile

Norin Corp. is a major international food manufacturing company operating in North America and the Caribbean. Norin has 46 production plants and is a basic food company that mills flour, bakes and markets bread and related bakery products, and processes vegetable oilseeds. It operates farm supply stores, produces animal and poultry feeds, and is an integrated processor of poultry. It stores and trades in grains, and processes and markets seeds. It manufactures and markets consumer food products including baking mixes, cereals, pet foods, specialty meats and diet foods.

Board of Directors

Bruce A. Norris (1)(3)
Chairman of the Board
and Chief Executive Officer

Robert G. Dale (1)
Vice Chairman of the Board

Louis J. Risi, Jr. (1)
President

David G. Scott (1)
Senior Vice President and
Chairman of the Executive Committee

Joseph H. Flom
(Partner in the law firm of
Skadden, Arps, Slate, Meagher & Flom)

Frank G. Kumpuris, M.D. (3)
(Surgeon—private practice)

Robert J. McNulty (3)
(President of McNulty Company—
construction development and
property management)

Henry G. Parks, Jr. (2)
(Chairman of the Board of
H. G. Parks, Inc.)

Marguerite N. Riker
(Vice President and
Director of Norris Grain Company)

Joseph H. Sharpe, Jr. (2)
(Vice President and Treasurer of
Norris Grain Company—agricultural
operations, land ownership and
professional hockey and stadium
operations)

John H. Taylor
(Chairman of the Board of
North American Life Assurance
Company—insurance)

Robert C. Wetenhall (2)
(Chairman of the Board of
McConnell, Wetenhall & Co., Inc.—
private investment firm)

(1) Member of Executive Committee
(2) Member of Audit Committee
(3) Member of Compensation Committee

Officers

Bruce A. Norris
Chairman of the Board and
Chief Executive Officer

Louis J. Risi, Jr.
President

David G. Scott
Senior Vice President and Chairman
of the Executive Committee

Roger A. Trombino
Senior Vice President, Treasurer
and Chief Financial Officer

Joseph G. Stover
Senior Vice President and Secretary

James P. McCaffrey
Senior Vice President

William J. Tennant
Controller

Jack Starkman
Assistant Treasurer

Financial Highlights

(In thousands of dollars except per share data)		**1978**	1977
Operations	Revenues	**$598,789**	564,081
	Net income	**9,195**	4,287
Financial Condition	Total assets	**234,239**	205,435
	Shareholders' equity	**70,930**	63,525
Per Share Data	Average common shares outstanding, in thousands	**2,481**	2,480
	Net income per common share	**3.10**	1.57
	Cash dividends per share: Preferred stock	**1.50**	.387
	Common stock	**.2273**	.1240
	Book value per common share	**22.13**	19.57

Contents

To Our Shareholders:

Norin's executive committee: *(left to right)* Louis J. Risi, Jr., president; Bruce A. Norris, chairman; Robert G. Dale, vice chairman; David G. Scott, senior vice president

For Norin Corp., 1978 was a year of significant growth—the best year in our history. Net income rose to a record $9.2 million from $4.3 million the year before. Net income per common share increased to $3.10 from $1.57. Our revenues climbed to a new high of $599 million from $564 million. We suggest that you refer to management's discussion of the items entering into our financial results, including a gain on a property settlement, shown on page 14.

Dividends

In line with Norin's record performance, cash dividends were increased to a rate of 40 cents yearly for each common share from 23 cents a share in 1978. This increase was made effective in January 1979 with the declaration of our first quarterly cash dividend of 10 cents a share.

Operations

The agri products, consumer food products and vegetable oil groups all achieved strong operating results in 1978. Flour operations exceeded plan and were the second highest in our history. Grain operations in 1978 again made an important profit contribution, but did not achieve planned levels. However, in 1979, grain operations are expected to return to higher profit levels.

The major thrust of our operating plans in 1978 was directed toward the expansion of our existing basic food businesses. In support of that program, $24 million was spent in 1978 on capital projects. The status of the most important of these projects carried out by our subsidiary Maple Leaf Mills is as follows:

- The new, $46-million vegetable oil complex, jointly owned with Lever Brothers, Ltd., is scheduled to begin operations in the Fall of 1979. This will be one of the largest and most modern plants in North America and is expected to generate annual revenues of approximately $150 million.

- The modernization of its largest flour mill at Calgary was completed in 1978.
- The new flour mill under construction in Barbados is scheduled to begin operations in mid-1979.
- The new bakery plant in Ontario is to start producing hamburger buns for the fast food industry in the fall of 1979.
- The new consumer food products plant in Toronto is scheduled to begin operations late in 1979.

We will continue internal development programs to maximize results from our existing operations.

Acquisitions

In January 1978, we acquired Sinai Kosher Sausage, one of the largest manufacturers of quality kosher meat products in the United States. In December 1978, we acquired the remaining public interests in Louis Sherry, a specialty food company. Then, in February 1979, we acquired the remaining five percent publicly held interest in Maple Leaf Mills Limited. Each of these operations is now 100 percent owned and fully integrated into our corporate structure. We intend to continue to acquire selected quality food companies.

Financing

In 1978, important steps were taken to support our expansion plans. The company sold $26 million of 20-year subordinated debentures to the public in August. Proceeds from the debentures were used to repay bank borrowings. In March 1979, we entered into a new, $35 million bank agreement that makes funds available for future expansion and acquisitions.

Corporate

At the May 31 annual meeting, shareholders will be asked to vote on a proposal that could reduce the number of shareholders owning 35 shares or less. Each of the company's 27,000 shareholders owning 35 shares or less would receive cash from the company unless that person chose to remain a shareholder. Of the 2,527,000 common shares presently outstanding, approximately 245,000 shares are owned by shareholders holding 35 shares or less. The proposal should produce an annual savings to the company of well over $100,000 as a result of the expected significant reduction in the company's 32,000 shareholders.

We also plan to change our state of incorporation from Delaware to Florida in keeping with our plans to expand Norin's worldwide operations from its executive headquarters in Miami. This change will result in additional annual savings in franchise taxes.

Outlook

We are confident that the actions taken in 1978 have laid a solid foundation for the achievement of our plans. Our operating groups are strong and well positioned in the markets in which we operate. We have good momentum from 1978 and fully expect to meet our growth targets in the years ahead.

We extend our special thanks to the more than 5,000 men and women of Norin, whose hard work made it possible for us to achieve our finest year.

March 29, 1979

Bruce A. Norris
Chairman of the Board and
Chief Executive Officer

Robert G. Dale
Vice Chairman of the Board

Louis J. Risi, Jr.
President

Operations

Norin achieved the progress planned for it in 1978. Cost increases were the most consistent challenge, both in the United States and in other countries, and we adjusted promptly and realistically to them. Our operating managers demonstrated great ability to meet this challenge and obtained strong results.

This year's results are presented under the following general designations: vegetable oil and flour milling; consumer food products; grain; agri products (our designation for feeds, poultry and seeds); and real estate and resort. This presentation should help you understand more fully Norin's operations.

To further understand Norin, it is important to see the interrelationships and balances among its different operations. For example, mill feeds from flour milling and meal from our vegetable oil processing are important ingredients in our animal and poultry feeds. We further use our own feed products in our poultry operations. We handle and store grain for our operations in both Canada and the Caribbean. Flour from our mills supply our bakeries. Sinai, with Midwest distribution, and Parks, with northeastern seaboard distribution, have developed a joint marketing program. This interplay, based on broad and fundamental consumer needs, will provide Norin with steady growth.

Vegetable oil and flour milling

Vegetable oil

Maple Leaf, our Canadian subsidiary, processes soybeans and other oilseeds (flax, linseed, rapeseed and sunflower) producing edible oils for margarine, shortening, salad and cooking oils. It also produces industrial oils sold to the paint and varnish industry. Meal, a byproduct from the extraction plants, is sold to animal and feed manufacturers, including our own agri products group.

These operations showed a 53 percent improvement in earnings in 1978, which were a record. Strong, worldwide demand for both meal and oils, combined with good margins, are the main reasons for these results. We fully expect these to continue in 1979.

A major development is the new vegetable oil complex of Maple Leaf Monarch Co., owned equally with Lever Brothers, Ltd. This $46 million facility is expected to be in operation in the third quarter of 1979.

It will be one of the largest oilseed processing plants in North America. It will be capable of processing 490,000 tons of oilseeds annually, producing about 80,000 tons of vegetable oils and 410,000 tons of meal.

Being built on a 42-acre site near Windsor on the Detroit river, this new plant will have facilities that will produce and ship finished meal, oils and other products.

The meal will be sold to animal and poultry feed manufacturers in North America and to other customers overseas. Edible and industrial oils will be sold primarily in North American markets.

Management expects about $150 million of products to be produced annually by this new plant, beginning in 1980. This complex will replace our present vegetable oil facility.

This new vegetable oil processing plant near Windsor, Ontario will be one of the largest and most modern in North America when it begins operation late in 1979

Flour milling

Maple Leaf is one of the ten largest flour millers in the free world. It sells wheat flours for bread, cookies, crackers, cakes, pretzels, pasta, soups, gravies and desserts; it also processes rye flour. These milled products are also used by the consumer food products group, particularly the bakeries. Flour milling byproducts such as bran are further used in its agri products operations and sold to others for use in animal and poultry feeds.

The flour group was the major income producer for Norin. Its profits were the second highest in history.

Modernization of the recently acquired Calgary mill and construction of related bulk flour storage facilities in 1978 will provide better service and more opportunity to increase market penetration.

A highly competitive environment is expected in 1979 in the flour milling operations, and extensive cost-control programs should assure increased productivity.

International

Maple Leaf reported an excellent year from its operations in the Caribbean in 1978.

In Haiti, the consumption of flour continues to increase and La Minoterie d'Haiti, the state-owned flour mill which it manages, is undergoing expansion to approximately 11,000 hundredweight of flour a day. This expansion will be completed in 1979 and includes new facilities for grain storage and bagging, ship unloading and power generating. A new feed mill in which it has a one-third interest is also under construction. Total estimated cost of these projects is $6.5 million.

This new flour mill under construction in Barbados will be in operation about mid-1979

In Trinidad, Barbados and St. Vincent, Maple Leaf has an equity interest in facilities as well as management and technical service agreements.

In Barbados, a complex comprised of a flour mill with a capacity of 1,500 hundredweight of flour daily, a feed mill and a grain terminal, is under construction. The grain terminal will handle grain and meal for both the mills and the island's animal feed industry. Estimated cost of the Barbados project is $7.5 million. Operations are expected to start by mid-1979.

In St. Vincent, East Caribbean Flour Mills Ltd., had a good first year of operation with profits exceeding planned levels.

In Trinidad, National Flour Mills, Ltd., also had a satisfactory year.

Grain is an essential element of our operations

Consumer food products

Maple Leaf

We manufacture baking mixes, cereals, pet foods, and beverage mixes for the consumer market in Canada. We also sell flour and mixes from our flour operations to retail and institutional customers.

Our grocery products operations in Canada benefited from improved business in the Fall, and achieved record earnings in 1978.

Sales of dry dog food products have increased substantially and the pet food plant is now operating on a two-shift basis.

Baking mixes and dry pet foods were major contributors to the division's increased profits. "Quick Loaf" cake mixes were successfully introduced in 1978 and achieved excellent market acceptance.

Plans for this group indicate that further long-term profit improvements will result from lower production costs when we are in full operation at our new grocery products plant.

Parks

Sales were up 16 percent for this operation, which manufactures and markets pork sausages and specialty meat products along the northeastern seaboard from Virginia to Massachusetts. Higher meat costs and heavy test marketing expenses, however, reduced profit margins in 1978.

The year saw raw material costs increase beyond the point where we were immediately able to recover such increases, and higher meat costs generally caused a slowdown in public purchases of all red meats.

Parks developed new programs during the year. For example, we began to distribute Sinai products in some of Parks' traditional marketing areas in the Northeast. We also began an extensive market test in the Boston area. This was in conjunction with a new distribution program of Parks products by H. P. Hood, a large New England dairy products company. These programs are part of our strategy to expand our processed meat distribution into new geographic markets.

We see 1979 being characterized by further changes in eating habits; people are eating out more with resulting changes in supermarket food distribution. Because of these changes, our plans are to increase substantially sales to the food service market: restaurants, airlines, hotels and institutions.

Sausage and other meat products are marketed by Norin's Parks operation in the northeastern United States

Several dietetic foods, as well as jams and jellies, are marketed by Norin's Sherry division

Sinai

Revenues for this division, which processes and markets kosher meats principally in the Midwest, were up because of price increases. The division had a profitable year, but did not equal 1977's excellent performance. This trend was industrywide. Processed meat companies generally had lower operating profits in 1978, because processing beef was in short supply and meat costs were up substantially.

Among the positive aspects of the year were the benefits from Parks marketing Sinai products. Our Parks division distributed Sinai products during 1978 and expects to handle about twice as much product during the coming year.

In 1979, we plan to continue to expand into new market areas.

Louis Sherry

We market and distribute specialty food products under the "Louis Sherry" and "Dia-Mel" labels to supermarkets throughout the United States. Approximately 78 percent of Louis Sherry's sales are in dietetic jams, jellies, gelatin desserts, salad dressings and salt substitutes using the "Dia-Mel" label throughout most of the United States and the "Louis Sherry" label for jams and jellies in the Northeast. We also sell non-dietetic specialty foods under the "Louis Sherry" label.

If the federal government bans saccharin, we are prepared to use other sweetening agents in our dietetic line.

In 1978, we introduced a number of new products into test markets under both the "Louis Sherry" and "Dia-Mel" labels. We plan to expand Sherry's business through the continued introduction of new specialty food products, by broadening geographical distribution and through the acquisition of specialty food companies.

Bakeries

Eastern Bakeries Ltd. (68 percent owned), which operates in the Canadian Maritime provinces, had record sales and operating profits for 1978. Both sales and profits were up about 10 percent during this, Eastern's 50th year of operation.

Corporate Foods Ltd. (63 percent owned), operating in Ontario, had another year of good earnings. A new bakery plant, which will produce hamburger buns for all McDonald's restaurants in Ontario,

A wide variety of *Sinai* specialty meats are among the consumer products offered by Norin

is on schedule for operation in the Fall of 1979.

Corporate Foods and Eastern Bakeries made additional capital investments of $3.1 million in 1978 to improve productivity.

In Western Canada, McGavin Foods (40 percent owned) faced intense competition. McGavin has implemented programs to improve its competitive position.

Dempster and *Toastmaster* bakery products, being loaded here for delivery to Canadian retail outlets

Grain

In 1978, 30 million bushels of grain were shipped from Maple Leaf's primary storage elevators. It stores and ships grain for its own flour, vegetable oil and agri products operations, as well as for others.

Its country elevators and farm stores located in agricultural areas service farmers by supplying them with products to grow crops, and by storing and merchandising their crops.

Maple Leaf also trades and merchandises wheat, corn, oats, barley, rye and soybeans for its own agricultural operations and for resale to others.

In 1978, grain operations' profits were down from 1977 because of lower corn margins, higher grain costs and lower storage and drying revenues. In 1979, we expect a return to higher profit levels.

Agri products

Maple Leaf has three major operations under the agri products group: producing and marketing animal and poultry feeds, processing and marketing poultry, and processing and marketing cereal, forage and lawn seeds. Feed operations account for about 75 percent of agri product revenues.

Feed products are sold throughout Canada under the "Master" brand name. They are distributed through 35 Master Feeds service centers, which also sell other farm supplies.

It operates the largest chicken hatchery in Canada and is Ontario's largest supplier of broiler chicks. It is one of the five largest seed corn companies in Canada.

Agri products had excellent results in 1978 and we anticipate another fine profit performance in 1979. We expect the poultry processing group, which had an exceptional performance in 1978, to have another good year in 1979. The main factors influencing our poultry operations are imports and the price of competing meats, such as pork and beef. The farm supply centers should continue their fine performance.

Real estate and resort

Three miles northwest of Homosassa Springs, Florida, along the shores of the Homosassa River, lies Norin's waterfront residential community "Riverhaven Village." Approximately 900 homesites, of which 118 are sold, are within its 393 acres. More than 50 purchasers have built or are building homes, and the first residents began moving in early in 1978. Riverhaven Village is designed for people who want unspoiled natural surroundings and water oriented outdoor recreation, and yet desire the convenience of a carefully planned community. We are successfully marketing homesites at prices ranging up to $69,000 in Riverhaven, which is one of the few available developments located on navigable water close to the Gulf of Mexico.

Our resort complex in Homosassa Springs features a well-known, 200-acre tourist attraction, which includes an animal preserve and the "fish bowl," a submerged observation bowl where visitors can view thousands of colorful fish in their natural habitat in the Homosassa River. In 1978, over 100,000 people visited our attraction. The complex also includes two motels, restaurants, gift shops, a convention center, tennis courts and swimming pools. The Homosassa River and the surrounding area of the Gulf of Mexico are well-known fishing spots. *Sports Illustrated* magazine featured the exceptional fishing at Homosassa Springs in an article in its June 19, 1978 issue.

Anthony Farms, a 4,000-acre property located near Ocala, Florida, is being offered for sale in large parcels. In 1978, approximately 200 acres were sold profitably.

We have a major contingent interest in Sugarmill Woods, a 14,000-acre development by Punta Gorda Developers, Inc., located within a few miles of our resort operation. Upon the sale of homesites by the developer, we receive payments under our agreement. We are entitled to receive cash payments up to $17 million, relating to future sales of Sugarmill Woods homesites. These payments are included in income as received. Through 1978, the company has received $756,000 from Sugarmill Woods.

Water recreation, tranquility and attractive residential location are among the features of Norin's real estate development, Riverhaven Village, near Homosassa Springs, Florida

Officers of Major Operations

Maple Leaf Mills

Robert G. Dale
Chairman of the Board, President and Chief Executive Officer

James A. Telfer
Executive Vice President—Operations

Herbert W. Blakely
Senior Vice President-Planning and Corporate Services

John D. Bodrug
Senior Vice President-Domestic Operations

William E. Paterson
Senior Vice President-International Operations

Philip W. Strickland
Senior Vice President-Corporate Development

John J. Wigle
Senior Vice President-Finance

Allan H. James
Vice President-Flour Division

James W. MacDonald
Vice President-Grocery Products Division

George S. MacDonell
Vice President-Agricultural Division

Scott A. Miller
Vice President-Labor Relations

William G. Milliken
Vice President-Vegetable Oil Division

C. Leonard Turner
Vice President-Grain Division

Ronald E. Lennox
Secretary and Treasurer

Donald D. Brown
Controller

Associated Bakeries

Presidents and Chief Executive Officers

N. T. Currie
Corporate Foods Limited

D. Devine
McGavin ToastMaster Limited

D. G. Hickingbottom
Eastern Bakeries Limited

Parks Sausage

Henry G. Parks, Jr.
Chairman of the Board

Raymond V. Haysbert, Sr.
President and Chief Executive Officer

Aroon S. Choksi
Vice President and Controller

George F. David III
Vice President-Manufacturing

Charles L. Walker
Vice President-Marketing and Sales

Sinai Kosher Sausage

Samuel Pozin
President

Richard I. Loewenstein
Vice President

Rodney A. Bjerke
Director of Finance

Louis Begoun
Controller

Louis Sherry

Joseph P. Anniello
President

Ron Kalmore
Executive Vice President

Henry E. Sieban, Jr.
Vice President, Secretary and Treasurer

Phillip Strazza
Controller

Real Estate and Resort

G. A. Furgason
Executive Vice President-Real Estate

Mike M. Ignat
Executive Vice President-Resort

Carson Bomar
Vice President and Controller

Market Information

Since November 1977, both the Company's common and preferred stock have been traded on the American Stock Exchange. The Company's common and preferred stock formerly were traded in the Over-the-Counter market and quoted by the National Association of Securities Dealers Automated Quotation System. Since November 1978, the Company's common stock is also traded on The Toronto Stock Exchange. The high-and-low prices of the common and preferred stock on the American Stock Exchange as reported by the National Quotation Bureau, and the high-and-low bid and asked prices for the common and preferred stock in the Over-the-Counter market as reported by the National Association of Securities Dealers Automated Quotation System for the periods indicated below are as follows:

	COMMON STOCK			
	Bid*		Asked*	
	High	Low	High	Low
1977				
First Quarter	9	7¼	10	8¼
Second Quarter:				
Through June 23	12¼	8	13¼	9
From June 24 (after 10% stock dividend)	10	10	11	11
Third Quarter	11	8½	12	9½
Fourth Quarter (through November 18)	10	8	11	9

	PREFERRED STOCK			
	Bid*		Asked*	
	High	Low	High	Low
1977				
Fourth Quarter (through November 18)	14½	12	15¼	12¾

*These quotations represent prices between dealers without retail markups, markdowns or commissions, do not represent actual transactions and have not been adjusted for stock dividends.

	COMMON STOCK*	
	High	Low
1977		
Fourth Quarter (from November 19)	12⅞	10
1978		
First Quarter	12½	10¼
Second Quarter:		
Through June 8	13	9¾
From June 9 (after 10% stock dividend)	11⅛	10
Third Quarter	10¾	9⅛
Fourth Quarter	10⅜	7½

*These prices represent actual transactions and have not been adjusted for stock dividends.

	PREFERRED STOCK	
	High	Low
1977		
November 19 through December 31	14⅜	13⅛
1978		
First Quarter	13¾	13
Second Quarter	13⅞	12¾
Third Quarter	13⅞	12¾
Fourth Quarter	13½	10¾

Dividends

In 1977 and 1978, the Company paid an annual cash dividend in July of 15 cents a common share and 25 cents a common share, respectively, and immediately thereafter paid a 10 percent common stock dividend in both years. Effective January 1979 cash dividends were increased to an annual rate of 40 cents a common share, payable quarterly.

The Company's cumulative preferred stock pays an annual dividend of $1.50 a share, payable quarterly. No dividends were due in 1977; the first dividend of 38.7 cents a share was paid on January 1, 1978 and quarterly dividends of 37.5 cents were paid thereafter on April 1, July 1, and October 1, 1978.

Management's Discussion and Analysis of the Consolidated Statement of Income

Year Ended December 31, 1978

Revenues of the Company's grain segment increased $25,202,000 or 23.2% from 1977 to 1978 due to increased sales volumes of corn and soybeans. Flour and vegetable oil revenues decreased $20,261,000 or 9.6% as the result of lower sales volumes of Canadian flour exports. The increase of $19,259,000 (17.2%) in the consumer food products segment resulted from the domestic acquisitions of Louis Sherry and Parks in March 1977 and the acquisition of Sinai in January 1978. The increase in real estate and resort revenues of $724,000 (14.8%) was due to improved occupancy and higher prices at the resort operations ($403,000), higher retail land sales ($824,000) offset, in part, by a $503,000 decrease in bulk land sales. Other revenues increased $8,817,000, including an $8,010,000 gain (before income taxes and minority interests) on the final settlement with the Canadian government for property which was acquired by the government in 1973 through the exercise of sovereign property rights. The remaining increase in other revenues is attributable to higher earnings of the Company's flour milling and bakery affiliates in which the Company's ownership is less than 50%. The Company's equity in net income of such affiliates is not consolidated but is reported as other revenues. Revenues of the Company's Canadian operations are translated from Canadian dollars into U.S. dollars for inclusion in the Company's financial statements. The average exchange rate declined from .9403 U.S. dollars per Canadian dollar in 1977 to .8767 U.S. dollars per Canadian dollar in 1978. In 1978, Canadian revenues increased $13,483,000 (2.5%) in U.S. dollars and the Company's domestic revenues increased by $21,225,000. As a result, the Company's total revenues increased by $34,708,000 (6.2%) from 1977 to 1978.

Operating income increased $3,961,000 (11.6%) in 1978. The operating results of the agricultural products segment increased by $1,687,000 (39.9%) due to improved poultry processing results and the absence of losses on soybean meal held for production which occurred in 1977. Consumer food segment operating income increased by $737,000 (13.4%) due to the acquisition of Sinai in January 1978 ($354,000), lower operating expenses at Parks ($202,000) and improved Canadian operating results caused by improved product sales mix, higher grocery products sales margins and increased bakery earnings. Other operating income increased by $7,854,000, principally as a result of the gain on the settlement with the Canadian government. The operating income of the grain segment and the flour and vegetable oil segment decreased by $1,333,000 (32.6%) and $2,418,000 (13.6%), respectively, due to adverse corn market conditions in late 1978 and lower volume of Canadian flour exports, offset in part, by improved soybean crushing margins and improved margins on Canadian oil imports. Real estate and resort operating results decreased by $2,566,000 primarily due to a $1,983,000 write down of the carrying value of land held for sale or development to estimated net realizable value, resulting from the Company's experience in attempting to sell a parcel of property which the Company had formerly intended to develop. Real estate and resort operating results also decreased due to higher payroll and operating costs at the resort operations ($184,000), and reduced levels of bulk land sales ($490,000) offset by an improvement of $127,000 in the retail land sale operation resulting from increased sales.

Interest expense was $2,048,000 higher (28.2%) in 1978 due primarily to higher borrowings incurred to increase the ownership of Maple Leaf. Corporate expenses increased $637,000 (9.5%) in 1978 principally due to expenses of $587,000 relating to the resignation of a former officer and director of the Company. Equity in net income of affiliates increased by $948,000 as the result of higher flour mill earnings and improved bakery results. Foreign currency translation losses, which result from the translation of Canadian accounts and operating results, were $2,477,000 (76.4%) lower in 1978 than in 1977. The decrease was due to a lower level of net foreign monetary assets (which decreases the impact of changes in translation rates) caused by increased Canadian-dollar borrowings used to purchase additional Maple Leaf shares from the minority shareholders. Income taxes increased $1,255,000 (12.8%) as a result of higher Canadian earnings; the effective tax rate was 50.3% in 1978 compared to 56.7% in 1977 due to the Canadian government settlement, a portion of which is taxed at a rate lower than the statutory rate. Minority interests were $1,462,000 lower than 1977 due to the Company's purchase of additional Maple Leaf shares from the minority shareholders.

As a result of the net gain on the property settlement with the Canadian government of $5,677,000, offset, in part, by a write down of the carrying value of land held for sale of $1,983,000 and the charge of $587,000 related to the 1978 resignation of an officer and director of the Company, net income increased by $2,942,000 in 1978. In addition, net income also increased in 1978 due to a reduction in foreign currency translation losses of $1,750,000 (after minority interests).

Year Ended December 31, 1977

In 1977, Canadian dollar revenues of Maple Leaf increased by $44,111,000 (8.2%). However, because of a decrease in the average exchange rate from 1.013 U.S. dollars per Canadian dollar in 1976 to .9403 U.S. dollars per Canadian dollar in 1977, Maple Leaf revenues stated in U.S. dollars increased by only $2,007,000. Domestic revenues of the Company increased by $14,604,000, primarily as a result of the purchases of Parks and Louis Sherry. As a result, the Company's consolidated revenues increased by $16,611,000 (3.0%).

Agricultural products revenues increased 1.9% and grain revenues decreased 1.5% in Canadian dollars. Flour and vegetable oil revenues increased $39,153,000 (21.1%) in Canadian dollars as a result of higher flour volume (up 19.0%) and higher vegetable oil prices (up 26.3%). The purchases of Parks and Louis Sherry in March 1977 accounted for $13,901,000 of increased revenues of the consumer food products segment. Higher bulk land sales (up $949,000) and higher developed real estate sales (up $255,000) were the primary causes of the increase in 1977 real estate and resort revenues. Lower short-term interest income and decreased operating results from the Company's equity investments, offset in part by gains from the sale of surplus property, caused a decline of $729,000 (24.7%) in other revenues.

Total operating income increased $3,374,000 (11.0%) in 1977 due to improved earnings of the grain segment ($814,000 or 24.8%), flour and vegetable oil segment ($4,552,000 or 34.5%) and other income ($102,000 or 5.6%) and improved results of the real estate and resort segment ($751,000), offset in part by decreased earnings in the agricultural products segment ($2,145,000 or 33.6%) and the consumer food products segment ($700,000 or 11.3%). Grain results reflect improved grain merchandising margins and a larger volume of grain handled through the elevators. Flour and vegetable oil results in 1977 were favorably affected by a long industry-wide strike (since settled) of Quebec flour mill employees and a relatively high volume of Canadian government purchases of flour for its foreign aid program. Maple Leaf has a higher proportion of its flour milling capacity in locations outside of Quebec than its major competitors. As a result, Maple Leaf's flour mills outside of Quebec operated at almost full capacity throughout the year and it was able to obtain a larger share of the flour market than it would otherwise expect. Flour and vegetable oil operations also improved because of higher management fees from the operation of Caribbean flour mills. Such management fee income increased to approximately $2,750,000 in 1977 from $1,200,000 in 1976. The earnings of the agricultural products segment decreased in 1977 as a result of a seven month strike at the Montreal plant, a loss on soybean meal bought for use as a feed ingredient and lower poultry margins. Consumer food product earnings were affected by lower 1977 Maple Leaf sales margins due to intensified competition, offset in part by operating income of Parks and Louis Sherry.

The equity in net income of affiliates was $831,000 (72.7%) lower in 1977 primarily because the gain on sales of surplus property in 1976 did not recur. A decrease in the Canadian—U.S. dollar exchange rate increased the loss resulting from the translation of Canadian accounts and operating results from $404,000 in 1976 to $3,242,000 in 1977, an increase of $2,838,000. Minority interests, principally in Maple Leaf earnings, decreased $594,000 (15.8%) primarily as a result of decreased Maple Leaf earnings as expressed in U.S. dollars (due to increased translation losses) and the acquisition of additional Maple Leaf shares by the Company in 1977.

In 1976 the Company decided to discontinue its insurance and mortgage banking operations. Accordingly, 1976 results reflected a loss from discontinued operations of $6,966,000, including a provision of $5,531,000 for the estimated loss to be incurred upon disposal. In 1977, the disposal of the discontinued operations resulted in no additional net charge or credit to operations.

Net income was $4,287,000 in 1977, compared to a pro forma net loss of $2,951,000 in 1976, an improvement of $7,238,000. The principal reasons for the improvement were non-recurrence of the loss from discontinued operations and improved operating income offset in part by larger foreign currency translation losses.

Financial Review

Five Year Summary of Operations

(000's omitted, except per share information)	Year Ended December 31,				
	1978	1977	1976	1975	1974
Revenues	**$598,789**	564,081	547,470	523,089	544,643
Costs and expenses:					
Cost of sales and operations	**524,988**	496,337	487,032	464,853	488,001
Selling and administrative	**41,785**	40,000	34,719	30,367	28,227
Interest	**9,318**	7,270	7,902	4,800	5,424
Loss on joint venture operations and termination (net of $841 of revenues)					731
Income taxes	**11,034**	9,779	9,214	9,488	9,936
	587,125	553,386	538,867	509,508	532,319
Income before items listed below	**11,664**	10,695	8,603	13,581	12,324
Foreign currency translation gains (losses)	**(765)**	(3,242)	(404)	(776)	197
Minority interests	**(1,704)**	(3,166)	(3,760)	(3,195)	(3,937)
Income from continuing operations	**9,195**	4,287	4,439	9,610	8,584
Income (loss) from discontinued operations, including provision for loss on disposal of $5,531 in 1976			(6,966)	583	116
Net income (loss)	**9,195**	4,287	(2,527)	10,193	8,700
Pro forma interest expense			424	3,229	3,493
Pro forma net income (loss)	**9,195**	4,287	(2,951)	6,964	5,207
Preferred dividend	**1,500**	387			
Pro forma net income (loss) applicable to common stock	**$ 7,695**	3,900	(2,951)	6,964	5,207
Pro forma amounts (historical amounts less pro forma interest expense):					
Income from continuing operations	**$ 9,195**	4,287	4,015	6,381	5,091
Net income (loss)	**9,195**	4,287	(2,951)	6,964	5,207
Net income (loss) applicable to common stock	**7,695**	3,900	(2,951)	6,964	5,207
Per common share:					
Income from continuing operations	**$ 3.10**	1.57	1.79	3.88	3.46
Net income (loss)	**3.10**	1.57	(1.02)	4.11	3.51
Pro forma income from continuing operations	**3.10**	1.57	1.62	2.58	2.05
Pro forma net income (loss)	**3.10**	1.57	(1.19)	2.81	2.10
Average number of common shares outstanding, in thousands	**2,481**	2,480	2,480	2,478	2,478

The operations of Maple Leaf are consolidated with those of Norin on a pooling of interests basis commencing January 1,1974, the approximate date on which the predecessor majority owner acquired effective control of Maple Leaf. The summary gives effect, by pro forma adjustment, to the interest expense which would have been incurred had the February 24, 1976 borrowing for the acquisition of Maple Leaf occurred as the predecessor majority owner obtained its ownership interest. No recognition has been given to the theoretical income tax effect of pro forma interest because to do so would not be meaningful.

Norin Corp.

Business Segments

The following table sets forth the revenues and operating income (loss) of each of the company's business segments for the years indicated.

	Year Ended December 31,				
	1978	1977	1976	1975	1974
	(In thousands, except for percentages)				
Revenues:					
Agricultural Products	**$126,195**	125,228	132,469	132,262	141,194
	21.1%	*22.2*	*24.2*	*25.3*	*25.9*
Grain	**133,706**	108,504	118,859	107,645	135,677
	22.3	*19.2*	*21.7*	*20.6*	*24.9*
Flour and Vegetable Oil	**190,927**	211,188	187,237	174,453	165,668
	31.9	*37.4*	*34.2*	*33.3*	*30.4*
Consumer Food Products	**131,309**	112,050	102,547	100,278	91,190
	21.9	*19.9*	*18.8*	*19.2*	*16.9*
Real Estate and Resort	**5,610**	4,886	3,404	6,592	8,933
	.9	*.9*	*.6*	*1.3*	*1.6*
Other	**11,042**	2,225	2,954	1,859	1,981
	1.9	*.4*	*.5*	*.3*	*.3*
Total	**$598,789**	564,081	547,470	523,089	544,643
	100%	*100*	*100*	*100*	*100*
Operating Income (Loss):					
Agricultural Products	**$ 5,917**	4,230	6,375	4,911	5,814
	15.5%	*12.4*	*20.7*	*15.5*	*18.2*
Grain	**2,758**	4,091	3,277	5,188	4,855
	7.2	*12.0*	*10.6*	*16.4*	*15.2*
Flour and Vegetable Oil	**15,331**	17,749	13,197	11,874	10,486
	40.3	52.0	42.9	37.6	32.9
Consumer Food Products	**6,248**	5,511	6,211	5,415	3,177
	16.4	*16.2*	*20.2*	*17.2*	*9.9*
Real Estate and Resort	**(1,940)**	626	(125)	3,175	6,341
	(5.1)	*1.8*	*(.3)*	*10.0*	*19.9*
Other	**9,767**	1,913	1,811	1,034	1,247
	25.7	*5.6*	*5.9*	*3.3*	*3.9*
Total	**38,081**	34,120	30,746	31,597	31,920
	100%	*100*	*100*	*100*	*100*
Interest, Foreign Currency Translation Gains or Losses, Minority Interests, General Corporate Expenses and Equity in Net Income of Affiliated Companies	**17,852**	20,054	17,517	15,728	16,893
Pro forma Income from Continuing Operations before Income Taxes	**$ 20,229**	14,066	13,229	15,869	15,027

Revenues attributable to flour and similar products for the years ended December 31, 1978, 1977, 1976, 1975 and 1974 were $131,159,000, $151,413,000, $140,881,000, $121,949,000 and $103,728,000, respectively. Operating income attributable to flour and similar products for the years ended December 31, 1978, 1977, 1976, 1975 and 1974 were $11,299,000, $15,113,000, $10,532,000, $7,938,000 and $8,134,000, respectively. See Notes 9 and 10 to consolidated financial statements for contribution to net income from foreign operations and intersegment sales and revenues, respectively.

Consolidated Balance Sheet

December 31, 1978 and 1977

Assets	1978	1977
	(In thousands)	
Current assets:		
Cash	$ 3,226	5,108
Short-term investments, at cost which approximates market	4,512	6,955
Accounts receivable, less allowance for doubtful accounts of $1,960,000 and $2,431,000	53,277	49,379
Receivable from Canadian government	10,240	
Inventories	56,042	57,843
Other assets	1,774	3,042
Total current assets	129,071	122,327
Property and equipment, less accumulated depreciation of $16,975,000 and $13,219,000	59,126	49,235
Investments in affiliated companies	27,253	15,665
Other investments:		
Land held for sale or development	10,056	12,324
Mortgage notes receivable, less deferred gain of $2,985,000 and $2,839,000	3,715	4,574
	13,771	16,898
Other assets	5,018	1,310
	$234,239	205,435

See accompanying notes.

Norin Corp.

Liabilities and Shareholders' Equity	1978	1977
	(In thousands)	
Current liabilities:		
Loans payable	$ 12,896	24,798
Accounts payable	28,881	22,790
Accrued liabilities	10,661	11,318
Income taxes	1,891	3,988
Current portion of long-term debt	2,452	1,927
Total current liabilities	56,781	64,821
Long-term debt:		
Parent company and domestic subsidiaries	34,013	26,542
Foreign subsidiaries (including, in 1978, $18,939,000 guaranteed by Norin Corp.)	46,092	30,090
	80,105	56,632
Deferred income taxes	15,214	9,311
Minority interests	11,209	11,146
Shareholders' equity:		
Preferred stock, $1 par value; authorized 5,000,000 shares, issued and outstanding 1,000,000 shares (at sinking fund redemption value)	15,000	15,000
Common stock, $1 par value; authorized 10,000,000 shares, issued and outstanding 2,527,000 and 2,257,000 shares	2,527	2,257
Capital in excess of par value	43,974	41,407
Retained earnings	9,429	4,861
	70,930	63,525
	$234,239	205,435

Norin Corp.

Consolidated Statement of Income

Years ended December 31, 1978 and 1977

	1978	1977
	(In thousands)	
Revenues	**$598,789**	564,081
Costs and expenses:		
Cost of sales and operations	**524,988**	496,337
Selling and administrative	**41,785**	40,000
Interest	**9,318**	7,270
Foreign currency translation losses	**765**	3,242
Income taxes	**11,034**	9,779
Minority interests	**1,704**	3,166
	589,594	559,794
Net income	**$ 9,195**	4,287
Net income per common share	**$ 3.10**	1.57

See accompanying notes.

Norin Corp.

Consolidated Statement of Shareholders' Equity

Years ended December 31, 1978 and 1977

	Preferred stock	Common stock	Capital in excess of par value	Retained earnings
		(In thousands)		
Balance at December 31, 1976, as originally reported	$	2,052	41,073	3,695
Restatement resulting from change in accounting for leases			124	35
Balance at December 31, 1976, as restated		2,052	41,197	3,730
Public sale of 1,000,000 preferred shares	15,000		(1,523)	
Dividends declared:				
Preferred -				
Cash ($.387 per share)				(387)
Common -				
Cash ($.1240 per share)				(309)
Stock (10%)		205	2,255	(2,460)
Other			(522)	
Net income				4,287
Balance at December 31, 1977	15,000	2,257	41,407	4,861
Dividends declared:				
Preferred -				
Cash ($1.50 per share)				(1,500)
Common -				
Cash ($.2273 per share)				(564)
Stock (10%)		223	2,313	(2,563)
Issuance of common shares - Louis Sherry acquisition		47	277	
Other			(23)	
Net income				9,195
Balance at December 31, 1978	$15,000	2,527	43,974	9,429

See accompanying notes.

Norin Corp.

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1978 and 1977

	1978	1977
	(In thousands)	
Working capital was provided by:		
Net income	**$ 9,195**	4,287
Charges (credits) not involving working capital -		
Depreciation	**4,741**	4,221
Deferred income taxes	**5,829**	495
Minority interests	**1,704**	3,166
Other - net (in 1978, net of $1,983,000 write down of carrying value of land held for sale).	**(84)**	(2,865)
Working capital provided from operations	**21,385**	9,304
Additional proceeds from sale of insurance business		16,350
Proceeds from public sale of Preferred Stock, less related costs		13,477
Long-term debt incurred including, in 1978, proceeds from public sale of Debentures, less related costs	**50,644**	12,069
Other - net	**928**	1,521
	72,957	52,721
Working capital was used for:		
Cost of additional investment in Maple Leaf	**1,060**	17,284
Acquisition of subsidiaries, less working capital acquired of $1,998,000 in 1978 and $2,362,000 in 1977	**4,559**	3,366
Increase in investments in affiliated companies - net	**11,070**	6,152
Property and equipment additions - net	**11,229**	7,926
Reduction of long-term debt	**27,717**	30,496
Distributions to minority shareholders of subsidiaries	**474**	1,316
Cash dividends declared	**2,064**	696
	58,173	67,236
Increase (decrease) in working capital	**14,784**	(14,515)
Working capital at the beginning of year	**57,506**	72,021
Working capital at the end of year	**$ 72,290**	57,506
Changes in elements of working capital:		
Increase (decrease) in current assets -		
Cash and short-term investments	**$ (4,325)**	3,329
Receivables, net	**14,138**	6,681
Deposits with The Canadian Wheat Board		(11,036)
Inventories	**(1,801)**	9,810
Other assets	**(1,268)**	(5,002)
	6,744	3,782
Decrease (increase) in current liabilities -		
Loans payable	**11,902**	(16,871)
Accounts payable, accrued liabilities and income taxes	**(3,337)**	(3,939)
Current portion of long-term debt	**(525)**	2,513
	8,040	(18,297)
Increase (decrease) in working capital	**$ 14,784**	(14,515)

See accompanying notes.

Norin Corp.

Notes to Consolidated Financial Statements

December 31, 1978 and 1977

1. Summary of Significant Accounting Policies

A. Basis of presentation and consolidation policy

The accompanying consolidated financial statements include the accounts of all majority owned subsidiaries. Investments in affiliates (in which the Company's ownership interest does not exceed 50%) are recorded on the equity method.

B. Inventories

Inventories are valued principally at the lower of average or replacement cost. Grains held for resale and other commodity inventories are hedged, where practicable, to reduce risks due to price fluctuations. Inventories are comprised of the following:

	December 31, 1978	December 31, 1977
	(In thousands)	
Grains held for resale	$10,774	13,677
Material held for production	28,372	24,395
Finished products	16,896	19,771
	$56,042	57,843

C. Property and equipment

Property and equipment owned by the Company is recorded at cost. Depreciation is provided principally on the straight-line method. The principal estimated useful lives for purposes of depreciation are: buildings—10 to 50 years; machinery and equipment—3 to 15 years. Maintenance and repairs which do not materially extend useful life and minor replacements are charged to operations.

D. Land held for sale or development

Land held for sale or development was acquired principally from the Company's majority shareholder, Norris Grain Company (Norris Grain) and its affiliates, (subject to related mortgage loans) and is carried at the lower of transferors' adjusted cost plus subsequent development costs, including, in accordance with real estate industry practice, applicable interest, or estimated net realizable value.

E. Pension plans

The Company and its subsidiaries have pension plans (primarily contributory) available to substantially all employees. The companies fund current pension costs accrued. Past service costs (aggregating $4,528,000 at December 31, 1978, of which $1,708,000 is included in accrued liabilities in the consolidated balance sheet) are funded principally over a 15-year period. Pension expense for 1978 and 1977 was $2,288,000 and $2,144,000, respectively.

F. Foreign currencies

The financial statements of the Company's Canadian subsidiaries are translated to U.S. dollars in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement No. 8. The resulting currency translation gains or losses are included in operations. Management fee revenue from sources outside the United States and Canada is recognized when collection becomes reasonably assured.

2. Property and Equipment

	December 31, 1978	December 31, 1977
	(In thousands)	
Land and improvements	$ 6,527	6,109
Buildings	30,180	26,826
Machinery and equipment	39,394	29,519
	76,101	62,454
Less accumulated depreciation	16,975	13,219
	$59,126	49,235

3. Mortgage Notes Receivable

Mortgage notes receivable at December 31, 1978 include $4,295,000, less a deferred gain of $2,710,000, relating to real estate (Sugarmill Woods property) distributed in 1974 to Norin's former joint venture partner upon dissolution of the joint venture. The deferred gain arose from the sale of Sugarmill Woods to the joint venture and is being recognized as the notes are collected. Norin is also entitled to receive from the former joint venture partner deferred payments relating to future sales of the property up to $14.5 million (secured on a nonrecourse basis) which are included in income as received. The deferred payments are due as releases of specific lots are requested, with final payments due in 1987; to the extent such payments are not then made, the remaining property reverts to Norin. The Company remains secondarily liable on substantial state and county performance bonds and obligations which were incurred by the joint venture in connection with the development of the property. Such obligations accrue as various stages of development on the Sugarmill Woods property commence.

4. Loans Payable and Long-Term Debt

Loans payable (current)

Loans payable at December 31, 1978 and 1977 include $5,580,000 and $5,277,000, respectively, payable to banks, of which $5,538,000 and $5,277,000, respectively, are secured by assignments of accounts receivable and security interests in inventory having a carrying value at December 31, 1978 and 1977 of $97,213,000 and $100,480,000, respectively. Of the remaining balance at December 31, 1977, $17,605,000, represented interim borrowings from two financial institutions to finance the Maple Leaf Mills Limited (Maple Leaf) tender offer (Note 9).

Maple Leaf and its subsidiaries have unused lines of credit with several Canadian banks of $61,191,000 (Canadian) at December 31, 1978 with interest at the prevailing prime rate in Canada. The unused portions of the lines of credit may be cancelled at the discretion of the banks. The agreements do not require commitment fees or compensating balances.

Long-term debt

	December 31, 1978	December 31, 1977
	(In thousands)	
Parent company and domestic subsidiaries		
Loan payable to banks under revolving credit and term loan agreement, interest at 1% over prime	$ 4,000	22,800
11% subordinated sinking fund debentures due in 1998	26,000	
Mortgages, interest at 6¼% to 10%, payable in varying instalments to 1994	3,971	3,559
Notes payable to banks, interest at 1% over prime	160	718
Obligations under capital leases (Note 6)	384	495
	34,515	27,572
Less current portion	502	1,030
	34,013	26,542
Foreign subsidiaries:		
Loans payable to financial institutions, interest at Canadian prime plus 2%	18,939	
5¾% sinking fund debentures maturing December 1, 1981	4,995	5,861
8½% sinking fund debentures maturing December 15, 1988	2,978	3,372
11⅝% sinking fund debentures maturing August 1, 1995	16,863	18,282
Obligations under capital leases (Note 6)	3,569	3,220
Other	698	252
	48,042	30,987
Less current portion	1,950	897
	46,092	30,090
Total long-term debt, excluding current portion	$80,105	56,632

On August 24, 1978 the Company completed a public offering of 11% subordinated sinking fund debentures due in 1998 (Debentures) at par value of $26,000,000. Under certain circumstances, holders may present Debentures for redemption prior to maturity at par, plus accrued interest, up to an annual aggregate principal amount of $1,300,000. Commencing in 1989, Norin is required to make annual sinking fund payments of $1,950,000.

On March 20, 1979 the Company entered into a $35 million credit and loan agreement (Credit Agreement), which replaced the revolving credit and term loan agreement. The Credit Agreement provides revolving credit loans convertible to term loans at March 31, 1982, which are repayable in four equal annual instalments beginning in 1983. The revolving credit loans and the term loans bear interest at ½% and ¾% over the prime rate, respectively, and are secured by a pledge of all Maple Leaf shares. A commitment fee of ½% per annum is payable on the unused portion of the commitment. The Credit Agreement contains a number of covenants which, among other things, impose certain restrictions with respect to additional indebtedness and investments. In addition, Norin must comply with certain minimum financial tests, including: maintaining a ratio of consolidated current assets to consolidated current liabilities of 1.6 to 1, maintaining consolidated net worth of $60,000,000 and maintaining consolidated unsubordinated funded debt at an amount which is less than the sum of net worth and subordinated debt. The Company is required to maintain compensating balances equal to 10% of the commitment plus 5% of the outstanding loans and interest will be assessed on deficiencies, if any. The compensating balances are not restricted as to withdrawal.

The loan payable under the revolving credit and term loan agreement existing at December 31, 1978 and 1977 was convertible into term notes repayable in four annual payments each equal to 17.78% of the total, with the remaining unpaid balance due in 1983. The notes were secured by a pledge of all the shares of stock which the Company owned of its significant operating subsidiaries, except the shares of Maple Leaf acquired pursuant to the 1977 tender offer.

Norin was informally required to maintain compensating balances equal to approximately 15% of the funds borrowed under its revolving credit and term loan agreement; interest was assessed on deficiencies at prime (11¾% at December 31, 1978) plus 1%.

On January 31, 1979 Norin Canada Holdings, Inc. (a wholly owned Canadian subsidiary of the Company which was combined with Maple Leaf on February 1, 1979) and a Canadian bank entered into a seven year $26,500,000 (Canadian) loan agreement which replaced interim borrowings ($18,939,000 ($22,461,000 Canadian) outstanding at December 31, 1978, bearing interest at the Canadian prime rate (11.5% at December 31, 1978) plus 2%) initiated in November 1977 to finance the tender offer for Maple Leaf shares. The interim borrowings were collateralized by the Maple Leaf shares thus acquired and were guaranteed by Norin. The notes under the new loan agreement are

repayable commencing in January 1980 in three annual instalments of $2,000,000 (Canadian), three annual instalments of $4,000,000 (Canadian) and a final instalment of $8,500,000 (Canadian); consequently, the interim borrowings have been classified as long- term debt at December 31, 1978. The notes bear interest at ¾ of 1% over Canadian prime and are guaranteed by Norin.

The mortgages are collateralized by land held for development, real estate and improvements having a net book value of $10,436,000 at December 31, 1978. The sinking fund debentures of the Company and its foreign subsidiaries are redeemable prior to maturity at the option of the Company at redemption prices which include premiums decreasing over the terms of the debentures.

Annual maturities of long-term debt, exclusive of Debentures redeemable by holders to a maximum amount of $1,300,000 per annum, for the four years subsequent to December 31, 1979 are as follows:

	Parent company and domestic subsidiaries	Foreign subsidiaries	Total
		(In thousands)	
1980	$ 538	3,605	4,143
1981	475	7,734	8,209
1982	218	2,962	3,180
1983	1,169	4,594	5,763

5. Capital Stock

On September 30, 1977, the Company sold through a public offering 1,000,000 shares of $1.50 Cumulative Preferred Stock at an issue price of $15 per share. Beginning in 1983 annual sinking fund payments of $600,000 sufficient to retire 40,000 shares are required and the Company may at its option retire through the sinking fund up to an additional 40,000 shares annually on a non-cumulative basis. The Preferred Stock may also be redeemed beginning in 1982 at prices declining from $16.00 per share in 1982 to $15.00 per share in 1992 and thereafter. The involuntary liquidation preference of the Preferred Stock is $15 per share plus accrued dividends.

On June 20, 1977 and May 24, 1978, the Board of Directors declared 10% stock dividends. All common share data included herein, which are based on the weighted average number of common shares outstanding during each period, have been retroactively adjusted to reflect such stock dividends. The effect of incremental shares applicable to dilutive stock options has not been included in the computations of earnings per common share as it would not be significant. Preferred dividends declared since the September 30, 1977 date of issue have been deducted in the determination of net income per common share.

On March 9, 1978 the Company terminated its Qualified Stock Option Plan (subject to the right of one existing optionee to exercise an outstanding option to purchase 12,100 shares of common stock) which provided for the granting of options to key employees and officers of the Company, its subsidiaries or Norris Grain for the purchase of not more than 315,652 common shares of Norin. The option price could not be less than 100% of the fair market value at date of grant. The number of shares subject to options outstanding at December 31 were: 1976 - 79,633, 1977 - 21,886 and 1978 - 12,100. The changes were due solely to terminations. At December 31, 1978, an option to purchase 12,100 shares was exercisable. The remaining option expired on March 14, 1979.

6. Leases

The Company leases certain of its transportation and production equipment and one of its production facilities under agreements which are classified as capital leases under FASB Statement No. 13. The leases generally are executed for periods which approximate the estimated economic lives of the related assets. The assets recorded under capital leases are as follows:

	December 31, 1978	December 31, 1977
	(In thousands)	
Land	$ 301	301
Buildings	2,150	2,150
Machinery and equipment	7,267	5,847
	9,718	8,298
Less accumulated amortization	(2,985)	(2,127)
	$6,733	6,171

Future minimum lease payments under the above capital leases together with the related present value as of December 31, 1978 are as follows:

	(In thousands)
1979	$1,273
1980	941
1981	735
1982	416
1983	298
Thereafter	1,435
Total minimum lease payments	5,098
Less amount representing interest	(1,145)
Present value of minimum lease payments, including $1,076,000 due in one year	$3,953

Maple Leaf's corporate headquarters and certain transportation and production equipment of the Company are leased

under leases which are classified as operating leases under FASB Statement No. 13. Annual future minimum rentals under operating leases are as follows:

	(In thousands)
1979	$ 1,712
1980	1,266
1981	1,008
1982	911
1983	798
Thereafter	5,644
	$11,339

Commencing in the first quarter of 1978, the Company elected early application of the retroactive provisions of FASB Statement No. 13. Accordingly, the financial statements and related financial data for 1977 and prior have been restated to capitalize certain leases which previously had been accounted for as operating leases. Such restatement had the effect of increasing 1977 originally-reported net income by $86,000 ($.03 per common share).

7. Income Taxes

Consolidated provisions for income taxes are comprised of the following:

	Year ended December 31,	
	1978	1977
	(In thousands)	
U.S. - current provision (credit) -		
Federal	$ 14	(47)
State	65	26
	79	(21)
Foreign (principally Canadian) -		
Current provision	6,204	9,305
Deferred provision	4,751	495
	10,955	9,800
	$11,034	9,779

The 1978 and 1977 deferred tax provisions include $2,488,000 and $670,000, respectively, for the tax effects of the excess of depreciation deducted for tax purposes over amounts deducted for financial reporting purposes. The 1978 deferred tax provision also includes $1,949,000 relating to the different tax and financial reporting bases of the settlement received from the Canadian government (Note 9).

The following tabulation reconciles the statutory U.S. federal income tax rate of 48% to the consolidated effective tax rate:

	Percent of pretax income (before minority interests)	
	Year ended December 31,	
	1978	1977
Statutory rate	48.0%	48.0
Domestic operating loss with no tax benefit (excluding Maple Leaf dividends)	16.6	12.1
Canadian earnings subject to aggregate tax rate other than 48%:		
Settlement with Canadian government	(8.7)	
Other	(5.9)	(9.6)
Foreign currency translation losses	1.7	9.0
Amortization of excess basis over cost of subsidiaries	(4.0)	(4.2)
Other	2.6	1.4
Effective rate	50.3%	56.7

Norin files a consolidated federal income tax return with its eligible domestic subsidiaries. For U.S. income tax purposes, these companies expect to report a consolidated net operating loss for the year 1978 resulting in a cumulative operating loss carryforward at December 31, 1978 of approximately $12,600,000, of which $3,700,000 will expire in 1983, $4,900,000 in 1984 and the remainder in 1985 unless previously utilized. The operating loss carryforward for financial statement purposes is $1,200,000 less, because of differences of timing in the recognition of certain transactions for tax and financial statement purposes.

Investment tax credits, which are not material in amount, are accounted for by Norin and domestic subsidiaries on the flow-through method and by Maple Leaf on the cost-reduction method.

No United States taxes have been provided on $27,567,000 of cumulative undistributed earnings of Canadian subsidiaries at December 31, 1978 because, in the opinion of management, the earnings are permanently reinvested.

8. Acquisitions

In March 1977, the Company purchased approximately 62% of the outstanding common stock of H. G. Parks, Inc. (Parks), a producer and distributor of pork sausages and other specialty meats. Subsequently (primarily in April 1977),

by cash tender and merger, the Company acquired the remaining 38% ownership of Parks. The operations of Parks are included in the accompanying financial statements since the respective dates of acquisition. The acquisition was financed with bank borrowings. The cost of $5,500,000 approximated the fair value of tangible net assets acquired.

On January 13, 1978 the Company acquired Sinai Kosher Sausage Corp. (Sinai), a processor and marketer of kosher sausage and meat products, for $5,850,000, financed by borrowings under the revolving credit and term loan agreement. The acquisition of Sinai has been accounted for as a purchase and accordingly is included in the 1978 consolidated results of operations from the date of acquisition. The $1,460,000 excess of cost over fair value of the Sinai net tangible assets acquired is being amortized on a straight line basis over 40 years.

During 1977 and 1978 the Company acquired Louis Sherry, Inc. (Louis Sherry) in transactions accounted for as purchases. The 1977 and 1978 results of operations of Louis Sherry were not significant in relation to the consolidated results of operations of the Company.

9. Maple Leaf Mills Limited

On February 24, 1976, Norin purchased from Norris Grain approximately 74% of the outstanding common shares of Maple Leaf for $30,000,000 borrowed from three banks. The acquisition of Maple Leaf was a combination of companies under common control and accordingly was accounted for as if it were a pooling of interests.

Maple Leaf became a wholly owned subsidiary of the Company in two principal transactions. Approximately 1,094,000 shares of Maple Leaf were acquired by Norin Canada Holdings, Inc. (Norin Canada) between November 14, 1977 and January 6, 1978 in a tender offer at $18.00 (Canadian) per share, thereby increasing Norin's ownership of Maple Leaf to 95%. Through the combination of Maple Leaf and Norin Canada on February 1, 1979, the remaining common shares of Maple Leaf were exchanged for approximately 250,000 preference shares of Maple Leaf which were subsequently redeemed at a price of $20.00 (Canadian) per share. In addition, the Company entered into an agreement with a group of the minority shareholders pursuant to which total additional payments of $1,850,000 (Canadian) were made in order to settle litigation brought by such minority shareholders challenging the aforementioned combination. The excess of the share of Maple Leaf's net assets over the cost of Maple Leaf shares acquired through the tender offer and the combination was $400,000, which was allocated to decrease the carrying value of Maple Leaf's property and equipment.

In connection with the planned development of a Toronto waterfront park by the Canadian government, certain Maple Leaf property (presently housing a grain elevator and vegetable oil extraction plant and refinery) was acquired in 1973 by the government through the exercise of sovereign property rights. Maple Leaf initially received $15,000,000 (Canadian) for the property and as an allowance for relocation costs with the expectation of additional compensation upon final settlement. The additional compensation was subsequently offered and the Company accepted the offer in February 1979. Revenues in 1978 include a gain of $8,010,000 which represents the amount of the additional compensation received from the government less the carrying value of the related property, relocation expenses and $1,300,000, representing the estimated value assigned to the potential gain at the dates the Company's ownership in Maple Leaf (including the controlling interest previously acquired by Norris Grain) was acquired. The $1,300,000 was allocated to reduce the carrying value of Maple Leaf's property and equipment in the Company's consolidated financial statements. The final settlement resulted in a 1978 net gain of $5,677,000, after income taxes and minority interests.

The operations of Maple Leaf (including Norin Canada) are conducted in locations outside the United States (principally Canada). Summary data relating to such foreign operations included in the accompanying consolidated balance sheets at December 31, 1978 and 1977, respectively, are (in thousands): working capital - $68,803 and $49,589; property and equipment, net - $47,630 and $40,679; other assets - $28,973 and $17,959; long-term debt - $46,092 and $30,090; and other liabilities and minority interests - $26,423 and $20,195. Revenues from such foreign operations were $558,417,000 and $544,934,000 for the years ended December 31, 1978 and 1977, respectively, and the contribution to consolidated net income from such foreign operations was $16,772,000 and $8,751,000 for the years ended December 31, 1978 and 1977, respectively.

Maple Leaf's investments in various affiliates (primarily joint ventures) approximate its equity in the underlying net assets of such ventures. The principal investment relates to Maple Leaf Monarch Company, described in Note 11. At December 31, 1978 and 1977, the joint ventures had total assets of approximately $109,400,000 and $69,500,000 (Cana-

dian), respectively, and total liabilities of approximately $40,900,000 and $30,800,000 (Canadian), respectively. Net income of the joint ventures for the years 1978 and 1977 was $3,180,000 and $1,130,000, respectively, as to which Maple Leaf's equity therein was $1,260,000 and $312,000, respectively.

Assuming the increase in ownership of Maple Leaf to 100% and the 100% ownership of Parks and Sinai had occurred on January 1, 1977 (Note 8) and the associated debt had been outstanding since such date, unaudited pro forma consolidated amounts for Norin, adjusted to reflect Norin's purchase costs and the interest expense related to the acquisitions and exclusive of the translation effect on the incremental debt, would have been as follows:

	Year ended December 31,	
	1978	1977
	(In thousands, except per share data)	
Revenues	$598,789	581,498
Net income	9,682	5,593
Net income per common share	3.30	2.10

10. Business Segment Data

The Company's operations are conducted through five business segments. These segments, and the primary operations of each, are as follows:

Business segment	Operations
Agricultural products	Producing and marketing animal and poultry feeds; operating farm supply centers; processing and marketing poultry products; processing and marketing cereal, forage and lawn seed
Grain	Trading and merchandising grains; acting as one of the sales agents for the Canadian and Ontario government wheat marketing boards; operating grain elevators and farm supply centers
Flour and vegetable oil	Milling and processing wheat and oilseeds; selling a variety of wheat flours, vegetable oils and meals; providing management assistance to flour milling companies in certain Caribbean countries
Consumer food products	Producing and marketing a variety of consumer grocery products, bakery goods, meat products and pet foods
Real estate and resort	Developing and/or selling land; operating a tourist attraction and resort

The revenues and operating profit of each of the Company's business segments for the years ended December 31, 1978 and 1977 and their associated identifiable assets at December 31, 1978 and 1977 are as follows:

1978	Agricultural products	Grain	Flour and vegetable oil	Consumer food products	Real estate and resort	Other	Eliminations	Consolidated
				(In thousands)				
Revenues:								
Sales to unaffiliated customers	$125,458	133,197	190,840	130,803	4,944			585,242
Intersegment sales	2,686	23,943	23,633	1,310			(51,572)	
Other	737	509	87	506	666	11,042		13,547
Total revenues	$128,881	157,649	214,560	132,619	5,610	11,042	(51,572)	598,789
Operating profit (loss)	$ 5,917	2,758	15,331	6,248	(1,940)	9,767		38,081
Equity in net income of affiliated companies								1,260
General corporate expenses								(7,325)
Interest expense								(9,318)
Minority interests								(1,704)
Translation losses								(765)
Income before income taxes								$ 20,229
Identifiable assets	$ 37,922	25,006	53,222	50,282	16,585		(151)	182,866
Investments in affiliated companies								27,253
Corporate assets								24,120
Total assets								$234,239
1977								
Revenues:								
Sales to unaffiliated customers	$124,329	107,948	210,533	111,405	3,767			557,982
Intersegment sales	2,361	22,428	25,169	845			(50,803)	
Other	899	556	655	645	1,119	2,225		6,099
Total revenues	$127,589	130,932	236,357	112,895	4,886	2,225	(50,803)	564,081
Operating profit	$ 4,230	4,091	17,749	5,511	626	1,913		34,120
Equity in net income of affiliated companies								312
General corporate expenses								(6,688)
Interest expense								(7,270)
Minority interests								(3,166)
Translation losses								(3,242)
Income before income taxes								$ 14,066
Identifiable assets	$ 38,234	25,752	52,040	42,157	18,414		(160)	176,437
Investments in affiliated companies								15,665
Corporate assets								13,333
Total assets								$205,435

Intersegment sales are made at prices similar to those charged to unaffiliated customers. Sales to the Canadian and other foreign governments and their agencies accounted for $37,438,000 and $57,934,000 of the sales of the flour and vegetable oil segment in 1978 and 1977, respectively.

Operating profit is total revenue less applicable operating expenses. In computing operating profit, none of the following items has been included: equity in net income of affiliated companies, general corporate expenses, interest expense, minority interests, translation losses and income taxes. Minority interests primarily arise due to the Company's consolidation of Maple Leaf, the operations of which comprise substantially all of the indicated segments (except real estate and resort) plus the amounts shown as "other" which, in 1978, relate primarily to the property settlement with the Canadian government (Note 9). The real estate and resort operating loss, in 1978, includes a $1,983,000 write down of land held for sale to estimated net realizable value.

Identifiable assets by segment are those assets that are used in the Company's operations in each segment. Corporate assets are principally cash, short-term investments, certain receivables and fixed assets.

Depreciation expense and additions to property and equipment (exclusive of assets of acquired companies at their date of acquisition), by segment, for the years ended December 31, 1978 and 1977 are as follows:

	Depreciation expense		Additions to property and equipment	
	1978	1977	1978	1977
	(In thousands)			
Agricultural products	$1,116	1,304	1,713	2,072
Grain	358	269	1,696	969
Flour and vegetable oil	643	544	3,961	1,419
Consumer food products	2,265	1,793	5,412	3,419
Real estate and resort	271	257	394	139
Corporate assets	88	54	120	381
	$4,741	4,221	13,296	8,399

At December 31, 1978 and 1977 the Company had investments in various affiliates which operate in Canada and the Caribbean. The Company's investments at December 31, 1978 and 1977, by segment, in the net assets of these affiliates and equity in their net income for the year then ended are as follows:

	Investments in net assets		Equity in net income	
	1978	1977	1978	1977
	(In thousands)			
Agricultural products	$ 1,863	1,596	316	141
Flour and vegetable oil	25,390	14,069	944	171
	$27,253	15,665	1,260	312

At December 31, 1978 and 1977, the Company's share of assets under construction (primarily Maple Leaf Monarch—Note 11) included in the above investments in net assets was approximately $17,157,000 and $8,340,000, respectively.

The Company's foreign operations are conducted through Maple Leaf (including Norin Canada) which had revenues of $558,417,000 and $544,934,000 for the years ended December 31, 1978 and 1977, respectively, substantially all of which were derived from customers outside the United States (principally Canada). Its income for the years ended December 31, 1978 and 1977 before minority interests and income taxes was $29,406,000 and $21,651,000 and its total assets at December 31, 1978 and 1977 were $197,715,000 and $169,498,000, respectively.

11. Commitments and Contingencies

Capital expenditure plans

In 1976 Maple Leaf entered into an agreement providing for an equal partnership (Maple Leaf Monarch Company) with Lever Brothers Limited to establish vegetable oil extraction and refining facilities in southwestern Ontario, Canada to replace the Toronto vegetable oil facilities (Note 9). The estimated cost of these facilities to the joint venture is $55,000,000 (Canadian), of which Maple Leaf's share is approximately $27,500,000 (Canadian). At December 31, 1978, Maple Leaf has invested $16,072,000 ($17,820,000 Canadian) in the joint venture for the construction of such facilities.

Anti-inflation Act

Under the Canadian Anti-inflation Act which became effective October 14, 1975, Maple Leaf was subject to mandatory government controls on dividends until October 13, 1978 and on prices, profit margins and employee compensation until December 31, 1978. Management believes that Maple Leaf was in compliance in all material respects with the Act and its regulations.

12. Quarterly Financial Data (Unaudited)

	Three months ended							
	March 31,		June 30,		September 30,		December 31,	
	1978	1977	1978	1977	1978	1977	1978	1977
	(In thousands, except per share data)							
Total revenues	$131,783	122,651	162,243	166,164	135,536	129,152	169,227	146,114
Gross profit	$ 14,820	13,255	16,351	15,798	14,073	13,409	15,010	19,183
Income before items listed below	$ 1,217	2,361	2,534	2,636	967	2,106	6,946	3,592
Foreign currency translation gains (losses)	229	(1,093)	(254)	(277)	286	(603)	(1,026)	(1,269)
Minority interests	(296)	(734)	(389)	(1,028)	(234)	(721)	(785)	(683)
Net income	$ 1,150	534	1,891	1,331	1,019	782	5,135	1,640
Net income per common share	$ .31	.21	.61	.54	.26	.31	1.92	.51

Gross profit equals sales and operating revenues less cost of sales and operations and, therefore, does not reflect the reduction for the minority interests' share of earnings which has been deducted in arriving at net income. The results of operations of the 1978 fourth quarter include a gain of $5,677,000 resulting from a property settlement with the Canadian government (Note 9) and a write down of $1,983,000 to reduce the carrying value of land held for sale to its estimated net realizable value.

13. Replacement Cost Estimates (Unaudited)

As required by the Securities and Exchange Commission, the Company has estimated the December 31, 1978 and 1977 replacement cost of its inventories and productive capacity and the estimated amounts of depreciation expense and cost of sales and operations resulting from such replacement costs. The estimated replacement costs are greater than the historical costs recorded by the Company. Data pertaining to the replacement cost estimates are contained in the notes to the financial statements included in the Company's Form 10 - K for 1978 filed with the Securities and Exchange Commission.

Report of Certified Public Accountants

The Board of Directors and Shareholders
Norin Corp.

We have examined the accompanying consolidated balance sheets of Norin Corp. at December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Norin Corp. at December 31, 1978 and 1977, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement of the financial statements for 1977 to give retroactive effect to the change, with which we concur, in the method of accounting for leases as described in Note 6.

Arthur Young & Company

Chicago, Illinois
March 20, 1979

Shareholder Information

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Market Listings
American Stock Exchange—
Common Stock
Preferred Stock
Subordinated Debentures
Toronto Stock Exchange—
Common Stock

Annual Meeting
The annual meeting of Norin shareholders will be held Thursday, May 31, at 10 A.M. at Norin Plaza Community Center, 1590 N.E. 123rd Street, North Miami, Florida 33161

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